

Message Text

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PAGE 01 BONN 00354 081911Z

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COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

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FM AMEMBASSY BONN

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INFO AMEMBASSY BRUSSELS

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DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: N/A

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SUBJECT: EMMINGER ON INTERNATIONAL MONETARY REFORM

1. IN AN ARTICLE PUBLISHED IN THE LATEST ISSUE OF THE FINANCIAL JOURNAL ZEITSCHRIFT FUER DAS GESAMTE KREDITWESEN, BUNDESBANK VICE PRESIDENT EMMINGER NOTES THAT (1) COMPLETION OF A NEW COMPREHENSIVE INTERNATIONAL MONETARY REFORM CONCEPT BY JULY 1974 IS BECOMING INCREASINGLY LESS LIKELY, AND (2) THE PLANNING PROCESS IS NOT ONLY BEING OUTPACED BY ACTUAL DEVELOPMENTS BUT ALSO INFLUENCED BY THEM TO AN INCREASING EXTENT. THEREFORE, EMMINGER SUGGESTS, REFORMERS MAY HAVE TO SETTLE FOR A STEP-BY-STEP INTRO-

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PAGE 02 BONN 00354 081911Z

DUCTION OF A SERIES OF INDIVIDUAL IMPROVEMENTS RATHER THAN DEVISING AN ENTIRELY NEW MODEL.

2. ACCORDING TO EMMINGER, ONE OF THE DEVELOPMENTS TENDING TO INFLUENCE REFORM PLANS IS THE RECOVERY OF THE DOLLAR. IN DEMANDING STRICT RULES FOR CONVERTIBILITY OR REMOVAL OF NATIONAL CURRENCIES AS RESERVE MEDIA, MOST EUROPEANS WERE LARGELY MOTIVATED BY PAST EXPERIENCES WITH A DETERIORATING DOLLAR AND ITS IMPACT ON THE INTERNATIONAL MONETARY SYSTEM. BUT WHAT IF THE DOLLAR WERE TO BECOME A STRONG CURRENCY AGAIN -- WHAT IF THE DOLLAR OVERHANG IN THE WORLD WERE TO BE SOAKED UP BY U.S. BALANCE OF PAYMENTS SURPLUSES, EMMINGER ASKS. OTHER RECENT EXPERIENCES LIKELY TO HAVE MORE OF AN IMPACT THAN THE WORK OF EXPERTS INCLUDE: THE FLOAT OF THE DOLLAR, THE BEGINNING OF A EUROPEAN CURRENCY AREA REFLECTED IN THE BLOC FLOAT, DECONTROL OF THE OFFICIAL GOLD PRICE, AS WELL AS THE OIL CRISIS AND ITS POSSIBLE CONSEQUENCES FOR FOREIGN EXCHANGE HOLDINGS OF THE OIL PRODUCING COUNTRIES AND THE INTERNATIONAL MONETARY RESERVE SYSTEM.

3. IN EMMINGER'S VIEW, 1973 HAS PROVEN TWO BASIC FACTORS: (1) DISCONTINUATION OF INTERVENTIONS AND A SWITCH TO FLOATING MAY BECOME INEVITABLE UNDER CERTAIN CIRCUMSTANCES, AND (2) THE ECONOMIES OF THE WORLD HAVE COPEd WITH FLUCTUATING EXCHANGE RATES BETTER THAN PREVIOUSLY EXPECTED. MOREOVER, THE OIL CRISIS HAS DEMONSTRATED ONCE AGAIN HOW DIFFICULT "TOO FIRM AND LASTING TIES OF PARITIES" WOULD BE ALSO IN THE FUTURE.

4. TURNING TO THE U.S. POSITION ON THE ISSUE, EMMINGER NOTES FIRST SIGNS OF A SHIFT IN U.S. ATTITUDES AWAY FROM THE EARLIER STAND IN FAVOR OF FREEING THE DOLLAR FROM ITS UNILATERAL TIES INHERENT IN THE FORMER SYSTEM TOWARD ADVOCACY OF "CERTAIN TIES AND RULES" -- "PERHAPS BECAUSE THEY (THE AMERICANS) FEAR THAT OTHERWISE THEY MAY PREMATURELY LOSE MANY ADVANTAGES THROUGH AN UPWARD FLOAT OF THE DOLLAR".
HILLENBRAND

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